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C O N F I D E N T I A L TOKYO 000397

SIPDIS

STATE FOR EEB/ESC/TFS CHRIS BACKEMEYER AND NEA/IR RAJ
WADHWANI

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TAGS: ENRG EPET ETTC IR PREL JA

SUBJECT: DEMARCHE DELIVERED: IRAN SANCTIONS ACT: REPORTED
JAPANESE COMPANY INVOLVEMENT IN DEVELOPMENT OF IRANIAN GAS
FIELD

REF: STATE 015541

Classified By: Acting Deputy Chief of Mission Marc Wall for Reasons 1.4
(b) and (d)

¶1. (C) SUMMARY: Responding to concerns raised in ref in meetings on February 26, senior Foreign Ministry and Ministry of Economy, Trade and Industry officials confirmed the Japan Drilling Company (JDC) renewed contracts to supply two rigs in Iran's South Pars gas field in 2008 and 2009. They stressed the need to avoid enabling Iran to capitalize on such investments to gain international legitimacy. The Japanese officials said Japan strictly implements UNSC resolutions on Iran and questioned whether the JDC investment is significant enough to trigger the Iran Sanctions Act. The officials also expressed concern that, while Japanese firms have reduced investment in Iran's oil sector in the past, Chinese firms have filled the void and weakened international pressure on Iran. END SUMMARY.

¶2. (C) Acting Deputy Chief of Mission (ADCM) shared reftel points in separate meetings with Ministry of Economy, Trade and Industry (METI) Trade Policy Bureau Director General Hideichi Okada and Ministry of Foreign Affairs (MOFA) Middle Eastern Affairs Director General Toshiro Suzuki February 26.

¶3. (C) Okada said Japan has been working closely with the United States on Iran nuclear and related issues and has been strictly imposing measures defined in several UNSC Resolutions on Iran. Okada added that Japan's efforts have occasionally exceeded UNSC requirements, and he referred to Inpex Corporation's reduction of its stake in the Azadegan oil field from 75% to 10%. However, Okada said, following the Japanese company's move, "another country" moved in to take its place. Okada said Japan would therefore appreciate efforts to coordinate with other international actors to make international sanctions more effective. (NOTE: Okada was referring to the China National Petroleum Corporation's reported investment in Azadegan in the fall of 2009).

¶4. (C) Okada said a preliminary review of the Japan Drilling Company's (JDC) activities in Iran, based on reports that appeared in a February 8 article in Platts, found the company's investment amounts to only 400,000 yen. Okada said JDC entered a contract to supply two rigs to service South Pars in 2003, and the contract was renewed in 2008-2009, information that came to light when the company recently went public. Okada added that JDC appears to be a private company. Okada also asked for additional information on the Iran Sanctions Act's definition of investment, noting that Japan imports crude oil from Iran, but it is difficult to know "where to draw the line." The ADCM stressed the issue is

not so much about the letter as the spirit of the law and the risk of enabling Iran to use such deals to resist pressure to comply with international obligations. Okada agreed this is a "very sensitive, important time" in dealing with Iran and said he would look into the matter carefully and make a "best effort" to convey concern to JDC.

¶15. (C) Separately, DG Suzuki said he became aware of the JDC matter after the Deputy Secretary raised it with Japanese Ambassador Fujisaki earlier in the week, and MOFA is still investigating in coordination with METI. Suzuki said the company has been in operation for some time and established a small joint venture in Iran that operates two rigs, one on a contract renewed in 2008, the other in January 2009. Suzuki said he understands reports of these past transactions are what recently surfaced in the Iranian press and sparked current scrutiny. Suzuki said JDC's investment does not appear to be very large and pledged to continue looking into the matter.

¶16. (C) Suzuki subsequently echoed Okada's message about Chinese investment in Iran moving into the "vacuum" left by Japan, which he said had caused some embarrassment to parts of the Japanese government and the business community. Suzuki added that Japan's trade volume with Iran has been consistently declining, and Japan continues to strictly implement UNSC resolutions. Suzuki said that while Japan has had some high-level political contact, including the current visit to Japan of Iranian Parliament Speaker Ari Larijani, Japan is maintaining "conservative" economic ties and is wary of Iran's efforts to "choreograph" a positive bilateral relationship.

¶17. (C) Turning to the Larijani visit, Suzuki described Japanese Deputy Foreign Minister Kenichiro Sasae's hour-long meeting with Larijani the previous day as "intensive" and said Sasae made very clear Japan's position that it would join tougher measures developed in the U.N. and that Iran must accommodate its IAEA obligations as a "starting point" for future discussions. Noting "the Iranians are not dumb," Suzuki said Larijani could in no way mistake Japan's strict position on Iran.

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